RECORD AND BRIEFS

Supreme Court, U.S.
FILED
OCT 30 2017
OFFICE OF THE CLERK

No. 16-712

IN THE

Supreme Court of the United States

OIL STATES SERVICES, LLC,

Petitioner,

v.

GREENE'S ENERGY GROUP LLC, *et al.*,

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF ASKELADDEN LLC AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENTS

CARTER G. PHILLIPS*
JOSEPH R. GUERRA
JOSHUA J. FOUGERE
MILTON P. WILKINS
SIDLEY AUSTIN LLP
1501 K Street N.W.
Washington, D.C. 20005
(202) 736-8000
cphillips@sidley.com

Counsel for Amicus Curiae

* Counsel of Record

October 30, 2017

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES ii

INTEREST OF *AMICUS CURIAE* 1

SUMMARY OF ARGUMENT 3

ARGUMENT 4

THE CONSTITUTION DOES NOT REQUIRE THAT THE VALIDITY OF ISSUED PATENTS BE DETERMINED ONLY IN ARTICLE III COURTS 4

I. THE VALIDITY OF ISSUED PATENTS IS A MATTER OF PUBLIC RIGHT 5

A. This Court's Decisions Confirm That Patent Validity Is Fundamentally A Matter Of Public Right 5

B. Congress Assigned Adjudication Of Patent Validity To The PTO To Protect The Public From The Harms Of Invalidly Issued Patents 9

II. THE AIA'S PROCEDURES SATISFY THE STANDARDS FOR THE ADJUDICATION OF PUBLIC RIGHTS IN NON-ARTICLE III FORUMS 12

A. Congress Responded To The Problem Of Invalid Patents In An Effective And Constitutionally Appropriate Manner 12

B. IPR And CBM Reviews Involve No Encroachment On Or Hostility Towards The Judicial Branch 14

CONCLUSION 16

TABLE OF AUTHORITIES

CASES Page

Alice Corp. Pty. v. *CLS Bank Int'l*, 134 S. Ct. 2347 (2014) 12
Automatic Radio Mfg. Co. v. *Hazeltine Research*, 339 U.S. 827 (1950), *overruled by Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969) 8
Bilski v. *Kappos*, 561 U.S. 593 (2010) 10
Brown v. *Duchesne*, 60 U.S. (19 How.) 183 (1857) 7
Commodity Futures Trading Comm'n v. *Schor*, 478 U.S. 833 (1986) 5
Crowell v. *Benson*, 285 U.S. 22 (1932) 5, 13
Cuozzo Speed Techs., LLC v. *Lee*, 136 S. Ct. 2131 (2016) 13
Fla. Prepaid Postsecondary Educ. Expense Bd. v. *Coll. Sav. Bank*, 527 U.S. 627 (1999) 6
Graham v. *John Deere Co.*, 383 U.S. 1 (1966) 7
Kappos v. *Hyatt*, 566 U.S. 431 (2012) 13
Lear, Inc. v. *Adkins*, 395 U.S. 653 (1969) 8
Mercoid Corp. v. *Mid-Continent Inv. Co.*, 320 U.S. 661 (1944) 7, 8, 15
Motion Picture Patents Co. v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917) 7, 10
N. Pipeline Constr. Co. v. *Marathon Pipe Line Co.*, 458 U.S. 50 (1982) 4
Palmore v. *United States*, 411 U.S. 389 (1973) 15, 16
Pope Mfg. Co. v. *Gormully*, 144 U.S. 224 (1892) 8, 11
Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964) 6

TABLE OF AUTHORITIES—continued

Page

State Street Bank & Trust Co. v. *Signature Fin. Grp., Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), *abrogation recognized in Bilski* v. *Kappos*, 561 U.S. 593 (2010) 10
Stern v. *Marshall*, 564 U.S. 462 (2011) 3, 4, 13
Teva Pharm. USA, Inc. v. *Sandoz, Inc.*, 135 S. Ct. 831 (2015) 7
Thomas v. *Union Carbide Agric. Prods. Co.*, 473 U.S. 568 (1985) ..... *passim*
United States v. *Am. Bell Tel. Co.*, 128 U.S. 315 (1888) 8
United States v. *Singer Mfg. Co.*, 374 U.S. 174 (1963) 8
Wellness Int'l Network, Ltd. v. *Sharif*, 135 S. Ct. 1932 (2015) 5

CONSTITUTION, STATUTES AND REGULATIONS

U.S. Const. art. I, § 8, cl. 8 ..... 3, 4, 6
Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) 2, 13
8 U.S.C. § 1229a 14
§ 1252(b) 14
18 U.S.C. § 3401(a)–(b) 14
28 U.S.C. § 636(a)(3)–(4) 14
35 U.S.C. § 154 6
§ 261 ..... 6, 15
§ 271 6
§§ 311–319 2
§ 311(b) 13
§ 316(a)(11) 13
§ 326(a)(11) 13
§ 329 13
37 C.F.R. § 42.300 13

TABLE OF AUTHORITIES—continued

RULE Page

Fed. R. Crim. P. 58(g)(2) 14

LEGISLATIVE HISTORY

S. Rep. No. 24-338 (1836), *reprinted in The 1836 Senate Committee Report*, 12 J. of the Patent Office Soc'y 853 (1936) 2, 15
H.R. Rep. No. 112-98, pt. 1 (2011) 9, 10, 11, 12
157 Cong. Rec. S130 (daily ed. Jan. 25, 2011) 9
157 Cong. Rec. S1053 (daily ed. Mar. 1, 2011) 11
157 Cong. Rec. S1360 (daily ed. Mar. 8, 2011) 10
157 Cong. Rec. S7413 (daily ed. Nov. 14, 2011) 10, 11
157 Cong. Rec. H4420 (daily ed. June 22, 2011) 9

SCHOLARLY AUTHORITIES

James Bessen, *The Evidence Is In: Patent Trolls Do Hurt Innovation*, Harv. Bus. Rev. (2014), https://hbr.org/2014/07/the-evidence-is-in-patent-trolls-do-hurt-innovation 9
Josh Lerner et al., *Financial Patent Quality: Finance Patents After State Street* (Harvard Bus. Sch., Working Paper No. 16-068, 2015), http://www.hbs.edu/faculty/Publication%20Files/16-068_702dabb8-70c5-4917-a257-75dc8b0c4f6b.pdf 10

TABLE OF AUTHORITIES—continued

OTHER AUTHORITIES

Page

Cooperative Patent Classification, USPTO, https://www.uspto.gov/web/patents/classification/cpc/html/cpc-G06Q.html (Aug. 2017) 12

Derwent Innovation, Clarivate Analytics, https://clarivate.com/products/derwent-innovation/ (last viewed Oct. 30, 2017) 12

USPTO, *Patent Trial and Appeal Board Statistics* (Jan. 31, 2017) 11

USPTO, *Patent Trial and Appeal Board Statistics* (Mar. 31, 2017) 11

INTEREST OF *AMICUS CURIAE*[1]

Askeladden LLC is a wholly owned subsidiary of The Clearing Housing Payments Company L.L.C. The Clearing House is a banking association and payments company that dates to 1853 and is owned by the largest commercial banks. The Clearing House Payments Company L.L.C. owns and operates core payments system infrastructure in the United States and is currently working to modernize that infrastructure by building a new, ubiquitous, real-time payment system. The Payments Company is the only private-sector automated clearing house ("ACH") and wire operator in the United States, clearing and settling nearly $2 trillion in payments each day, representing half of all commercial ACH and wire volume. Its affiliate, TCH Association L.L.C., is a nonpartisan organization that engages in research, analysis, advocacy, and litigation focused on financial regulation that supports a safe, sound, and competitive banking system.

Askeladden founded the Patent Quality Initiative ("PQI") as an education, information, and advocacy effort to improve the understanding, use, and reliability of patents in financial services and elsewhere. Through its PQI, Askeladden strives to improve the patent system by having patents declared invalid and by challenging questionable patent holder behavior, while also supporting effective intellectual property practices and improved innovation rights. To

---

[1] No counsel for a party authored this brief in whole or in part, and no one other than Askeladden or its counsel made a monetary contribution intended to fund the preparation or submission of this brief. Letters from all parties consenting to the filing of *amicus curiae* briefs in support of either or neither party have been filed with the Clerk of the Court.

that end, Askeladden regularly files *amicus* briefs in cases presenting important issues of patent law.

This is one of those cases. By 2011, the patent system as a whole and the proliferation of bad financial services patents in particular had spiraled out of control. Much of the fault lay with the overbroad (mis)interpretation of statutory preconditions for patentability and the resulting issuance of a great many illegitimate patents. That was a problem of significant public concern, as these improperly issued patents burdened both interstate commerce and the courts. Congress responded by enhancing proceedings in the Patent and Trademark Office (PTO) through which parties can challenge the validity of issued patents, subject to judicial review. Two such proceedings—inter partes review (IPR) and the covered business method (CBM) process—were at the heart of those reforms. See Leahy-Smith America Invents Act (AIA), Pub. L. No. 112-29, § 18, 125 Stat. 284, 329–31 (2011); 35 U.S.C. §§ 311–319.

Askeladden has a strong interest in reaffirming the propriety of these landmark legislative solutions. Facing an analogous problem nearly 200 years ago, Congress's decision to provide additional powers to the PTO to determine patentability, subject to judicial review, promised to have a "most beneficial and salutary effect in relieving meritorious inventors, and the community generally, from the serious evils growing out of the granting of patents for everything indiscriminately, creating interfering claims, encouraging fraudulent speculators in patent rights, deluging the country with worthless monopolies, and laying the foundation for endless litigation." S. Rep. No. 24-338 (1836), *reprinted in The 1836 Senate Committee Report*, 12 J. of the Patent Office Soc'y 853,

861 (1936). Congress acted for many of these same reasons in adopting the AIA.

Article III does not straightjacket Congress's ability to protect the public from invalid patents, by requiring that every dispute concerning the validity of an issued patent be litigated exclusively in an Article III court and before a jury. Askeladden submits this brief to help show why.

SUMMARY OF ARGUMENT

I. This Court has recognized that a non-Article III forum can adjudicate matters of federal law in the first instance when "public rights" are at stake. Although patents have some attributes of private property, patent *validity* is very much a matter of "public right" for Article III purposes. Indeed, just as granting valid patents helps to "promote the Progress of Science and useful Arts," U.S. Const. art. I, § 8, cl. 8, so too does the elimination of invalid patents, which harm the public interest by undermining innovation and burdening interstate commerce. This Court's decisions recognize as much. And Congress plainly enacted the AIA's IPR and CBM procedures to provide an effective and efficient remedy to protect the public from the harms of invalid patents.

II. Article III poses no bar to such remedial legislation. Congress properly established an alternative to district court litigation in the "particularized area of" patent validity, by providing an inexpensive means for dealing with a class of questions "which are particularly suited to examination and determination by" the PTO, "an administrative agency specially assigned to that task." *Stern* v. *Marshall*, 564 U.S. 462, 493–94 (2011). This scheme is permissible, particularly because "the review afforded [in an Article III court] preserves the

appropriate exercise of the judicial function." *Thomas* v. *Union Carbide Agric. Prods. Co.*, 473 U.S. 568, 587, 592 (1985). Far from encroaching on the authority of Article III courts, this remedy relieves overworked district courts and litigants alike from the burdens of meritless patent litigation. There is nothing unconstitutional about this salutary exercise of congressional authority to promote science and the useful arts and to protect commerce.

ARGUMENT

THE CONSTITUTION DOES NOT REQUIRE THAT THE VALIDITY OF ISSUED PATENTS BE DETERMINED ONLY IN ARTICLE III COURTS.

In assessing whether the IPR process at issue in this case is a legitimate exercise of Congress's plenary authority to "promote the Progress of Science and useful Arts," U.S. Const. art. I, § 8, cl. 8, two considerations are paramount. First, as this Court has recognized, Congress has considerable latitude in shaping adjudicatory powers when the right is "of congressional creation," *N. Pipeline Constr. Co.* v. *Marathon Pipe Line Co.*, 458 U.S. 50, 83–84 (1982) (plurality opinion), or "flow[s] from a federal statutory scheme," *Stern*, 564 U.S. at 493. The so-called "public rights" doctrine, though "not ... entirely consistent," allows Congress to assign adjudicatory responsibilities outside Article III courts when, for example, "the claim at issue derives from a federal regulatory scheme, or ... resolution of the claim by an expert Government agency is deemed essential to a limited regulatory objective within the agency's authority." *Id.* at 488, 490. Second, the reservation of supervisory authority in Article III courts likewise permits "relieving the courts of a most serious burden while preserving their

complete authority to insure the proper application of the law." *Crowell* v. *Benson*, 285 U.S. 22, 54 (1932).

In this case, both factors—the public's interest in patent validity and the reservation of supervisory authority in Article III courts—confirm the constitutional validity of the AIA's IPR and CBM processes.[2]

I. THE VALIDITY OF ISSUED PATENTS IS A MATTER OF PUBLIC RIGHT.

The validity of issued patents is necessarily a matter of public right. This Court's decisions confirm this reality. And, in enacting the AIA, Congress plainly sought to vindicate that public right.

A. This Court's Decisions Confirm That Patent Validity Is Fundamentally A Matter Of Public Right.

In applying the "public rights" doctrine, the Court has repeatedly cautioned against "formalistic and unbending rules," *Wellness Int'l Network, Ltd.* v. *Sharif*, 135 S. Ct. 1932, 1944 (2015), and has admonished that "practical attention to substance rather than doctrinaire reliance on formal categories should inform application of Article III," *Thomas*, 473 U.S. at 586–87. To that end, the "public rights/private rights dichotomy" provides no "bright-line test," *id.* at 585–86, and the Court has found "no reason inherent in separation of powers principles to accord [even the] character of a claim talismanic power in Article III inquiries." *Commodity Futures Trading Comm'n* v. *Schor*, 478 U.S. 833, 853 (1986).

---

[2] Although the question presented is explicitly about IPRs, petitioner's constitutional arguments would also apply to CBM proceedings. *See, e.g.*, 3M Br. 4 n.2 (recognizing as much).

The statutory scheme governing patents makes plain why any "doctrinaire reliance on formal categories," *Thomas*, 473 U.S. at 587, is inappropriate here. Most fundamentally, and contrary to the premise of petitioner and its *amici*, patent rights cannot be classified as either "private" or "public" for all purposes. Rather, Congress has exercised its authority to "promote the Progress of Science and useful Arts," U.S. Const. art. I, § 8, cl. 8, by developing a patent system and patent rights that have some attributes of personal property, but that also involve prototypical public rights.

On the one hand, to create incentives for inventors to seek patents, and thus to disclose their inventions to the public, the Patent Act offers patentees a statutory right to exclude others from making, selling, or using the invention for a limited period of time. 35 U.S.C. §§ 154, 271. The statute goes on to facilitate the monetization of those exclusionary rights: "patents shall have the attributes of personal property," and any interest in them may be sold, assigned, or licensed. *Id.* § 261. With those "attributes of personal property," moreover, come additional constitutional safeguards, such as protection from deprivation of property without due process or just compensation. See, *e.g.*, *Fla. Prepaid Postsecondary Educ. Expense Bd.* v. *Coll. Sav. Bank*, 527 U.S. 627, 641–42 (1999). Ensuring that these constitutional protections attach to the personal-property attributes of patents promotes science and the useful arts by inducing innovation and disclosure.

On the other hand, a patent's "attributes of personal property" are explicitly made "[s]ubject to the provisions of this title." 35 U.S.C. § 261. Patent rights themselves "exist only by virtue of statute," *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 229 n.5 (1964), and "Congress may set out conditions and tests

for patentability," *Graham* v. *John Deere Co.*, 383 U.S. 1, 6 (1966). As a result, "an inventor has no right of property in his invention, upon which he can maintain a suit, unless he obtains a patent for it, according to the acts of Congress[,] and ... his rights are to be regulated and measured by these laws, and cannot go beyond them." *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183, 195, (1857); see also *Graham*, 383 U.S. at 9 ("The grant of an exclusive right to an invention was the creation of society—at odds with the inherent free nature of disclosed ideas—and was not to be freely given.").

All of this demonstrates that the "right[s] created by" the Patent Act are "not ... purely 'private' right[s]" for Article III purposes. *Thomas*, 568 U.S. at 589. Indeed, this Court has long recognized that "[i]t is the public interest which is dominant in the patent system." *Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U.S. 661, 665 (1944); see also *Teva Pharm. USA, Inc.* v. *Sandoz, Inc.*, 135 S. Ct. 831, 848 n.2 (2015) (Thomas, J., joined by Alito, J., dissenting) (noting that "the English common law" treated patents not as "'core' private rights" but as "privileges" "created purely for reasons of public policy" and stating that this "distinction ... has traditionally had significant implications for the way in which rights are adjudicated"). This conclusion is especially clear when it comes to patent validity.

Although certain personal-property features of patents unquestionably help to further the constitutional command, the Court has "consistently held that the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents, but is 'to promote the progress of science and the useful arts.'" *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917). Invalid patents plainly impede, rather than further,

that directive. The public therefore has a vital interest in ensuring that issued patents are valid and that invalid patents can be eliminated.

This Court's decisions have affirmed that "[i]t is the protection of the public in a system of free enterprise which ... nullifies a patent where any part of it is invalid." *Mercoid*, 320 U.S. at 665. This Court has likewise remarked that "[i]t is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly." *Pope Mfg. Co.* v. *Gormully*, 144 U.S. 224, 234 (1892). "When there is no novelty and the public parts with the monopoly grant for no return,"—in other words, when a patent is invalid—"the public has been imposed upon and the patent clause subverted." *United States* v. *Singer Mfg. Co.*, 374 U.S. 174, 199–200 (1963) (White, J., concurring).

An invalid patent thus "take[s] *from the public* rights of immense value and bestow[s] them upon the patentee." *United States* v. *Am. Bell Tel. Co.*, 128 U.S. 315, 370 (1888) (emphasis added). There can be no overriding *private* property interest in something "which under the patent statutes, was *the property of all*." *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 665–66 (1969) (emphasis added). In fact, just two decades after Justice Douglas bemoaned the need to "protect[] the public interest in exposing invalid or expired patents and freeing the public of their toll," *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 339 U.S. 827, 840 (1950) (Douglas, J., dissenting), his view, and the "important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain," won out, *Lear*, 395 U.S. at 670 (overruling *Automatic Radio*).

In short, the validity of issued patents is quintessentially a matter of public right.

B. Congress Assigned Adjudication Of Patent Validity To The PTO To Protect The Public From The Harms Of Invalidly Issued Patents.

It is equally clear that Congress established IPR and CBM review proceedings to vindicate the public's interest in validly issued patents. Congress recognized that there were too many invalid patents, especially too many invalid patents afflicting the financial services industry and thereby inflicting harm on the public. Congress responded with an administrative scheme tailored to these problems.

Congress explicitly recognized that many issued patents were of "low quality and dubious," prompting a need to "separate the inventive wheat from the chaff." 157 Cong. Rec. S130, S131 (daily ed. Jan. 25, 2011) (Statement of Sen. Leahy). "In several industries," Congress understood, patents were "often multitudinous, vague, and highly abstract." H.R. Rep. No. 112-98, pt. 1, at 163–64 (2011). In fact, largely meritless lawsuits brought by patent-assertion entities (or, colloquially, "patent trolls") under largely invalid patents cost defendants more than $29 billion in 2011 alone. James Bessen, *The Evidence Is In: Patent Trolls Do Hurt Innovation*, Harv. Bus. Rev. (2014).

The problem was particularly acute in the financial services and business communities. "[P]atent troll[s]" proliferated, H.R. Rep. No. 112-98, pt. 1, at 54, and such "opportunists" used "some of the most questionable business method patents ... for years to extort money from legitimate businesses." 157 Cong. Rec. H4420, H4425-26 (daily ed. June 22, 2011)

(Statement of Rep. Goodlatte). Patents "of questionable quality" had "become the preferred method of extracting large settlements from community banks and these practices threaten[ed] bankers' ability to provide banking and banking related services to their local communities and to local small businesses." 157 Cong. Rec. S1360, S1365 (daily ed. Mar. 8, 2011) (letter from Independent Community Bankers of America entered into the record by Sen. Schumer).

The glut of invalid financial patents largely traces back to a single judicial error—the Federal Circuit's adoption, in *State Street Bank & Trust Co.* v. *Signature Financial Group., Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), of an expansive patent-eligibility interpretation for business-method patents. Eventually the judiciary retreated, see *Bilski* v. *Kappos*, 561 U.S. 593, 612 (2010), but 12 years' worth of damage in the form of hundreds of bad patents was already in place. From the "late 1990's through the early 2000's"—*i.e.*, the *State Street Bank* era—the PTO issued many "poor business-method patents," H.R. Rep. No. 112-98, pt. 1, at 54, that Congress realized were "likely ... now invalid," 157 Cong. Rec. S7413, S7413 (daily ed. Nov. 14, 2011) (letter from House Judiciary Committee chairman entered into the record by Sen. Kyl); see also Josh Lerner et al., *Financial Patent Quality: Finance Patents After State Street* (Harvard Bus. Sch., Working Paper No. 16-068, 2015) (study sponsored by Askeladden) (surveying financial services patents from 2001 to 2010 and finding indicators of lower patent quality relative to other patents).

Congress was thus well aware that this state of affairs did not "promote the progress of science and the useful arts" but, instead, created entirely undeserved "private fortunes," *Motion Picture Patents*, 243 U.S. at

511, and "repressed" competition through "worthless patents," *Pope*, 144 U.S. at 234. Recognizing "that questionable patents are too easily obtained and are too difficult to challenge," Congress created a tailored response designed to "improve patent quality and restore confidence in the presumption of validity that comes with issued patents." H.R. Rep. No. 112-98, pt. 1, at 45, 48. IPR and CBM review proceedings allow parties "to go back to the PTO and demonstrate ... that the patent shouldn't have been issued in the first place. That way bad patents can be knocked out in an efficient administrative proceeding, avoiding costly litigation." 157 Cong. Rec. S1053, S1053 (daily ed. Mar. 1, 2011) (statement of Sen. Schumer) (specifically mentioning "frivolous business method patent[s]"). Review would be "inexpensive and speedy," sparing courts and litigants the burdens of protracted litigation. 157 Cong. Rec. at S7413 (letter from House Judiciary Committee chairman entered into the record by Sen. Kyl).

These proceedings, moreover, are working as intended. Not every patent claim subject to AIA review is invalidated, but invalid claims are being dealt with efficiently and effectively. Of the 4,563 IPR petitions filed that received a final disposition as of March 2017, the Board instituted trials in about half (2,406). USPTO, *Patent Trial and Appeal Board Statistics* 10 (Mar. 31, 2017). Of these, 1,577 resulted in final written decisions, invalidating all challenged claims 65% of the time, some challenged claims 16% of the time, and no claims 19% of the time. *Id.* For CBMs, moreover, 3,745 claims have been reviewed, with the Board finding 2,206 claims unpatentable and patentees themselves abandoning 302 claims. USPTO, *Patent Trial and Appeal Board Statistics* 13 (Jan. 31, 2017).

At the front end, too, the PTO and would-be patent holders have taken notice. Fewer patents in subclasses associated with financial services, for example, have been granted each year since 2013: in a class for "data processing" patents (G06Q), more than 2,000 patents that primarily belong to such subclasses were granted in 2013 and 2014, while fewer than 1,000 were granted in 2015 and in 2016. Cooperative Patent Classification, USPTO, https://www.uspto.gov/web/patents/classification/cpc/html/cpc-G06Q.html (Aug. 2017) (detailing classifications); Derwent Innovation, Clarivate Analytics, https://clarivate.com/products/derwent-innovation/ (last viewed Oct. 30, 2017) (link to analytical tool providing patent data). Although the Court's decision in *Alice Corp. Pty.* v. *CLS Bank International*, 134 S. Ct. 2347 (2014), undoubtedly played a role in the drop-off, a quicker path to invalidity in CBMs may also be discouraging specious patents from ever being sought or granted.

In sum, the AIA is "improv[ing] patent quality and restor[ing] confidence in the presumption of validity that comes with issued patents." H.R. Rep. No. 112-98, pt. 1, at 45, 48. In doing so, it is serving the indisputable public interest in preventing the harms to innovation and commerce that invalidly issued patents have inflicted.

II. THE AIA'S PROCEDURES SATISFY THE STANDARDS FOR THE ADJUDICATION OF PUBLIC RIGHTS IN NON-ARTICLE III FORUMS.

A. Congress Responded To The Problem Of Invalid Patents In An Effective And Constitutionally Appropriate Manner.

Because the IPR and CBM procedures address public rights in issued patents, Congress may

establish alternatives to district court litigation in this "particularized area of the law," and may draw on the expertise of the PTO to provide an "inexpensive method for dealing with" the problems that invalid patents cause. *Stern*, 564 U.S. at 493–94. This is particularly true where "the review afforded [in an Article III court] preserves the appropriate exercise of the judicial function." *Thomas*, 473 U.S. at 587, 592.

The Patent Office obviously has "special expertise in evaluating patent applications" and patent validity. *Kappos* v. *Hyatt*, 566 U.S. 431, 445 (2012). Through the AIA, moreover, Congress has brought that expertise to bear on specific "questions of fact which are particularly suited to examination and determination by an administrative agency specially assigned to that task." *Stern*, 564 U.S. at 493–94. In an IPR proceeding, a patent may only be invalidated on two grounds, anticipation or obviousness. 35 U.S.C. § 311(b). CBM review allows challenges on these grounds as well as patent eligibility under § 101 and § 112. 37 C.F.R. § 42.300(a). Highlighting the particularly tailored nature of this congressional response, the entire CBM process is scheduled to sunset in 2020. *Id.* § 42.300(d).

The AIA also combines efficiency with judicial oversight. The requirement that PTO review conclude within 12 months brings considerable efficiency. 35 U.S.C. §§ 316(a)(11), 326(a)(11). At the same time, Congress "authorize[d] judicial review of a 'final written decision' canceling a patent claim." *Cuozzo Speed Techs., LLC* v. *Lee*, 136 S. Ct. 2131, 2137 (2016) (discussing IPR); see also Pub. L. No. 112–29, § 18(a), 125 Stat. at 329-31; 35 U.S.C. § 329. A scheme in which "[f]indings of fact" are reviewed deferentially, while courts "reserv[e] ... full authority ... to deal with matters of law" has been held to "provide[] for the appropriate exercise of the judicial function." *Crowell*,

285 U.S. at 54; see also *Thomas*, 473 U.S. at 587, 592 ("the review afforded [in an Article III court] preserves the appropriate exercise of the judicial function").

The IPR and CBM processes therefore couple the PTO's expertise in a particularized area with the added protection of judicial review. Particularly given "the origin of the right at issue or the concerns guiding the selection by Congress of a particular method for resolving disputes," *Thomas*, 473 U.S. at 587, 592, this combination is a constitutionally appropriate method of protecting the public from the harms that invalid patents inflict.

B. IPR And CBM Reviews Involve No Encroachment On Or Hostility Towards The Judicial Branch.

Against this backdrop, the AIA's IPR and CBM proceedings do not impermissibly encroach upon, or reflect hostility towards, the judicial branch.

First, and again contrary to the position of petitioner and its *amici*, there is nothing anomalous about the initial adjudication of important rights—including rights that have constitutional dimensions—outside Article III courts. Notwithstanding the obvious liberty interests at stake, for example, federal magistrate judges conduct trials and sentence defendants for petty offenses, 28 U.S.C. § 636(a)(3)–(4); 18 U.S.C. § 3401(a)–(b), while immigration judges preside over removal hearings, 8 U.S.C. § 1229a. Judicial review in both cases is deferential on factual issues and de novo on the law. See, *e.g.*, *id.* § 1252(b); Fed. R. Crim. P. 58(g)(2). Similarly, while taking care not to "discount the importance attached to the tenure and salary provisions of Art[icle] III," this Court has "conclude[d] that Congress was not required to provide an Art[icle] III court for the trial of criminal cases" in the District

of Columbia—subject only to discretionary certiorari review in this Court. *Palmore* v. *United States*, 411 U.S. 389, 410 (1973).

Here, allowing the PTO to determine whether "the protection of the public in a system of free enterprise" requires the nullification of an invalid patent, *Mercoid*, 320 U.S. at 665, involves no greater intrusion on important interests. Indeed, as noted earlier, although patents have certain attributes of private property, those rights are "[s]ubject to the provisions of" the Patent Act. 35 U.S.C. § 261. No one has the right to "own" an invalid patent.

Second, the AIA does not strip Article III courts of their authority to determine the validity of patents. It presents a parallel option for litigants. And, again, the losing party can seek review from the PTO in an Article III court, with deference given to factual findings and legal issues reviewed de novo.

Third, far from demonstrating any hostility towards Article III courts, IPR and CBM proceedings seek to *lessen* the burden on them. That is a classic—and commendable—objective. Congress's first major revisions to the patent laws were propelled by concerns over "a great number of lawsuits ..., which are daily increasing in an alarming degree, onerous to the courts, ruinous to the parties, and injurious to society," and endeavored to "put an end to litigation before it begins." S. Rep. No. 24-338, *reprinted in The 1836 Senate Committee Report*, *supra*, at 857, 861. In *Palmore*, too, the Court upheld the Article I adjudication of criminal offenses that had been enacted in order "to relieve the regular Art[icle] III courts ... from the smothering responsibility for the great mass of litigation, civil and criminal." 411 U.S. at 408–09. The same bottom line controls this case: "Congress was not required to provide an Art[icle] III

court for the trial of" patent validity issues, because trial in the PTO is "authorized by Congress' Art[icle] I power to legislate" patents. *Id.* at 410.

Finally, the fact that IPR and CBM proceedings closely resemble certain features of judicial procedures does not render those proceedings unconstitutional. The adversarial procedures employed in these proceedings help to ensure the accuracy of PTO decisions, which benefits both the public and patentees, who are afforded procedural protections that minimize the risk of an erroneous invalidation of truly legitimate patents. Article III does not forbid the use of such salutary procedures in proceedings before the PTO.

CONCLUSION

The Court should affirm the judgment of the Federal Circuit.

Respectfully submitted,

CARTER G. PHILLIPS*
JOSEPH R. GUERRA
JOSHUA J. FOUGERE
MILTON P. WILKINS
SIDLEY AUSTIN LLP
1501 K Street N.W.
Washington, D.C. 20005
(202) 736-8000
cphillips@sidley.com

Counsel for Amicus Curiae

October 30, 2017 * Counsel of Record